

INITIAL STATEMENT OF REASONS FOR THE
ADOPTION OF CALIFORNIA CODE OF REGULATIONS,
TITLE 18, SECTION 25137-14

PUBLIC PROBLEM, ADMINISTRATIVE REQUIREMENT, OR OTHER CONDITION OR
CIRCUMSTANCE THAT THE REGULATION IS INTENDED TO ADDRESS

The proposed regulation is intended to provide a more equitable reflection of the activities of mutual fund service providers within California. Under current practice, individual members of the industry have received relief from the normal apportionment formula. The proposed regulation will provide similar treatment for all members of this industry. In addition, the proposed regulation will promote uniformity in state taxation for the members of the mutual fund service provider industry, as the proposed regulation is consistent with similar rules adopted in other states.

SPECIFIC PURPOSE OF THE REGULATIONS

This proposed regulation would provide detailed rules relating to the apportionment of the income earned by mutual fund service providers. In general, the regulation addresses the types of services performed by these businesses and rules pertaining to the sales factor assignment of receipts derived from these services

NECESSITY

Currently the Franchise Tax Board does not have a comprehensive regulation addressing the apportionment of income for mutual fund service providers. Instead, individual taxpayers in this industry have had to request relief from the standard apportionment formula on a case-by-case basis under the authority of Revenue and Taxation Code section 25137. While relief has been granted for these taxpayers, the Franchise Tax Board has an obligation to regulate when it seeks to prescribe rules of general application.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR
DOCUMENTS

The Franchise Tax Board examined and considered the regulatory history of Cal. Code of Regs., title 18, section 25137(c)(1)(A), including notices, statements of reasons, public hearing documents, written comments and responses thereto, and the reasoning and language of Franchise Tax Board Legal Ruling 97-1. Franchise Tax Board did not rely upon any other technical, theoretical, or empirical studies, reports or documents in proposing the adoption of this regulation.

ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON AFFECTED PRIVATE PERSONS OR SMALL BUSINESS

The Franchise Tax Board has determined that there were no alternatives considered which would be more effective in carrying out the purpose of the proposed regulation or would be as effective and less burdensome to affected private persons or small businesses than the proposed regulation. In addition, the proposed regulation pertains to corporate taxpayers and therefore does not affect private individuals.

ADVERSE ECONOMIC IMPACT ON BUSINESS

The Franchise Tax Board has determined that proposed regulation section 25137-14 of the California Code of Regulations will not have a significant overall economic impact on business. The regulation is a codification of existing Franchise Tax Board policy.